



Investment Office

P.O. Box 2749

Sacramento, CA 95812-2749

Telecommunications Device for the Deaf - (916) 795-3240

(916) 795-3400

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AGENDA ITEM 9a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Selection of Small-Mid Capitalization Equity Managers for Spring-fed Pools.
- II. PROGRAM:** Supplemental Income Plans Division
- III. RECOMMENDATION:**
- 1) Approve the following managers for inclusion in the Active Growth Small-Mid Capitalization Equity Managers Spring-Fed Pool:
Evergreen Investments
Putnam Investments
The Boston Company Asset Management
 - 2) Approve the following managers for inclusion in the Active Value Small-Mid Capitalization Equity Managers Spring-Fed Pool:
Systematic Financial Management
The Boston Company Asset Management
 - 3) Approve the use of annual review contracts for the Active Growth/Value Small-Mid Capitalization Equity Managers Spring-Fed Pools.

Wilshire Associates' opinion letter will be shown in Attachment 1. Wilshire's conflict of interest disclosure is shown in Attachment 2.

IV. ANALYSIS:

On March 12, 2007, the Investment Committee approved the issuance of a Request for Proposal (RFP) to select Small-Mid Capitalization equity managers to offer actively managed funds for Supplemental Income Plan (SIP) participants

for this market capitalization. The RFP, which provides for optional Investment Committee interviews of finalists, was issued on June 7, 2007. The RFP was advertised in *Pensions and Investments*. CalPERS received 21 proposals of which all but 5 met the minimum qualifications listed in the RFP. All 16 qualifying proposals were read and scored by staff according to the technical proposal criteria listed in the RFP. The scoring categories included:

- Organization / Investment Professionals
- Investment Philosophy and Process
- Trading Process and Systems
- Performance
- Composite / Product Information

Seven firms were invited to interview with staff at CalPERS' offices on October 10 and 11, 2007. Andrew Junkin from Wilshire Associates was in attendance at all the interviews. The interviews were scored by staff in accordance with the interview criteria listed in the RFP. The scoring categories included:

- Business Strategy
- Organization / Investment Professionals
- Investment Philosophy and Process
- Trading Process and Systems
- Risk Management

Fee proposal scores were combined with the technical proposal and staff interview scores to determine the firms to be recommended to the Investment Committee. Based on the results of the RFP process, staff and Wilshire recommend five products for inclusion in the Active Growth and Value Small-Mid Capitalization Equity Managers Spring-Fed Pools as shown below.

Active Growth Small-Mid Capitalization Equity Managers

- Evergreen Investments
- Putnam Investments
- The Boston Company Asset Management

Active Value Small-Mid Capitalization Equity Managers

- Systematic Financial Management
- The Boston Company Asset Management

Per the RFP, staff seeks determination by the Investment Committee to either interview finalists or approve staff recommendations.

Annual Review Contracts

Staff recommends the use of annual review contracts, which provide for an undefined duration. This would be consistent with the contracting procedure used for all other investment management contracts. This recommendation is necessary to fulfill CalPERS' fiduciary duties to its members because the use of annual review contracts is a more efficient use of CalPERS staff, Board time, and other resources. The award of contracts without a defined duration is allowed under Board Resolution 92-04B-4.

Funding

Once the firms are added to the Pools, staff will begin fee negotiations and will select one fund for Growth and one for Value to be offered in late 2008 to SIP participants' fund alternatives. The other funds will remain in the pool and may be included in the fund line-up at a later date. Staff will report back to the Investment Committee on the final funding selection in 2008 along with other fund line-up enhancements.

V. STRATEGIC PLAN:

Enhancing the Supplemental Income Plan addresses multiple CalPERS Strategic Plan Goals including:

- Goal VI to administer pension benefit services in a customer oriented and cost effective manner;
- Goal VII to enable and educate members and employers to make informed decisions leading to a predictable and secure retirement futures; and
- Goal IX to achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

Offering additional high-quality funds at competitive prices in the SIP provides plan participants more choices as participants self-select funds. Plan costs are paid by participants based on the funds selected and the amount of assets being invested. These recommendations further the Plan's goals of providing an attractive program to allow participants to supplemental their defined benefit retirement income.

Geraldine Jimenez, Division Chief
Supplemental Income Plans Division

Anne Stausboll
Chief Operating Investment Officer

Russell Read
Chief Investment Officer